

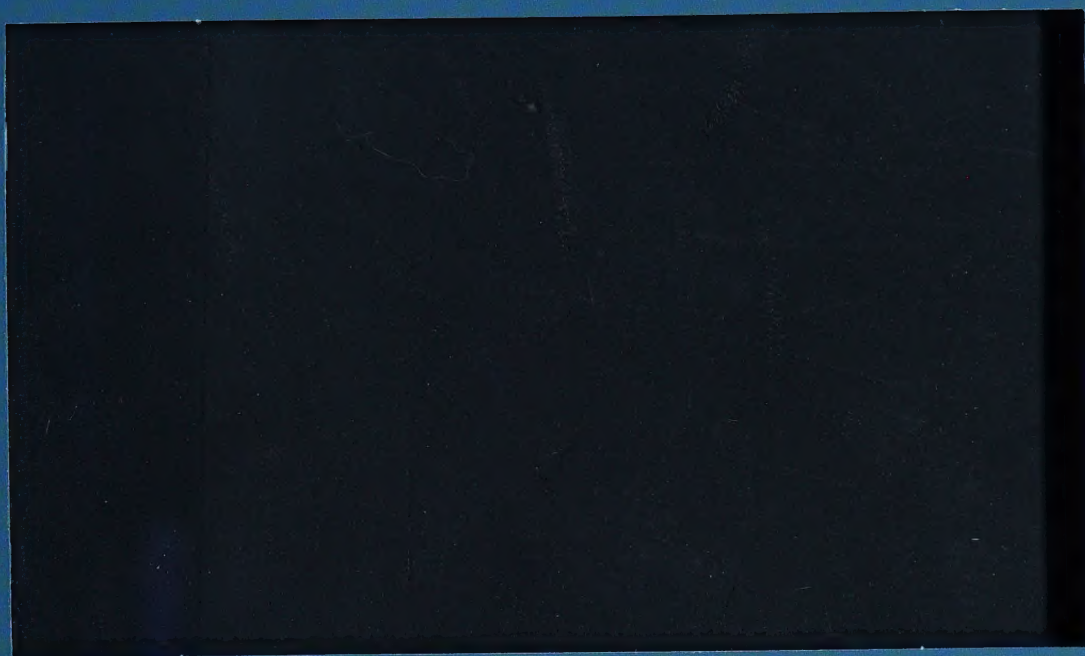


RESIDENTIAL EQUITIES REAL ESTATE INVESTMENT TRUST

Annual Report

1999





that prove
their worth
at a glance

Trust Description

Residential Equities is Canada's largest residential real estate investment trust (REIT) specializing in the acquisition, management and operation of multi-family residential properties.

Residential Equities distributes tax-efficient monthly income through a nation-wide portfolio of residential properties with a significant presence in the Greater Toronto Area (GTA) and with properties in Calgary, Edmonton, Vancouver and Montreal. At year-end, Residential Equities owned a portfolio consisting of 41 residential properties comprised of 8,251 residential suites and 227,042 square feet of ancillary retail/office space. Residential Equities is based in Toronto, Canada; its units are traded on the TSE under the symbol REE.UN.

Look at the windows *of* opportunity

There's a growing market trend towards urban living in major cities across Canada. People want to live close to where they work and play. And leading the way are the young professionals, empty nesters and active seniors - the fastest growing demographic segments of the population.

Residential Equities is poised and ready to take advantage of this move, with the right locations, amenities, services and vision to offer both a quality lifestyle and a quality investment. We invite you to take a look inside.

FINANCIAL PERFORMANCE

	Actual 1999	Actual Feb.16, 1998 to Dec. 31, 1998	Annualized 1998	% Gain
OPERATING PERFORMANCE (000s)	\$	\$	\$	
Property rental income	79,662	59,912	68,471	16.3
Property net operating income	40,096	30,554	34,919	14.8
Net earnings	13,786	11,905	13,606	1.3
Distributable income ¹	21,312	16,581	18,950	12.5
Distributable income per unit ²	98.4¢	76.6¢	87.5¢	12.5

	As at Dec. 31,1999	As at Dec. 31,1998
BALANCE SHEET (000s)	\$	\$
Gross book value of property assets, beginning of period	405,046	371,004
Acquisitions	75,971	25,238
Capital expenditures	7,513	8,804
Gross book value of property assets, end of period	488,530	405,046
Mortgage debt and loan payable	284,008	202,680
Loan-to-gross-book value	58.1%	50%

Notes:

1. Fully paid (instalment interest expense added back)
2. Weighted number of units = 21,654,311 (1998 - 21,637,000)

Residential Equities *now owns* 41 buildo *located in five major*

Dear fellow unitholders,

It's hard to capture in words the pace of change in today's high-speed, connected business world. There's volatility and uncertainty in the markets and a growing trend amongst many investors to try to find a balance between the "new economy" high growth strategies and the security of old market fundamentals.

While some of the rules that guided our decisions in the past are no longer reliable, there are still certain human needs that have changed very little throughout our history and are unlikely to change in the future. First and foremost is the basic human need for shelter - the real bricks and mortar of our society.

That is the core of our business. Residential Equities owns, manages and acquires multi-family residential properties on behalf of its investors. We provide quality living for our residents and a sound investment for our unitholders. It is a steady, predictable growth business with all the familiar essentials: solid profits, low volatility, impressive returns, convenient liquidity and most important, professional management. What's more, it has less correlation to the movement of the overall stock market than almost any other asset class - something we can all take comfort in as we watch the markets continue to rise and tumble around us.

While at first glance we are a traditional Trust steeped in the fundamentals of real estate, we are also firmly entrenched in the new economy. As you will see later in this report, our market leadership is enabling us to use technology to strengthen our relationships with our residents and increase our revenues. And our detailed understanding of what our residents want is becoming an increasingly valuable e-business opportunity.

But before we look to the future, let's recap 1999

The residential real estate fundamentals in Canada were solid. Residential Equities has tapped into the grow-

ing "renter by choice" market, concentrating on quality properties that have increasing rent performance and limited new-development competition. All of our markets are strong in both rental market fundamentals and employment growth. Our suite portfolio has grown 21% since 1998, and we have concentrated in the desirable neighbourhoods of major cities where demand exceeds supply. We have maintained our selective acquisition strategy, purchasing only well located properties with the best prospects for future growth.

After two years in business, we have built a solid foundation (figures based on 1998 annualized amounts, where applicable)

- Revenues jumped by \$11.1 million, up 16.3% to \$79.6 million.
- Gross property assets grew 20.6% to \$488.5 million.
- Distributable income reached 98.4 cents per unit, an increase of 12.5% over last year.
- Property net operating income increased 14.8% reflecting strong rental growth and high occupancy levels.
- Payout ratio equaled 95% of distributable income.

Delivering Superior Unitholder Returns



1999 was an excellent year for Residential Equities

We continued to grow the operating income of our existing assets, expand our portfolio of high-quality properties in existing and select new markets, and exceed analysts' expectations, increasing our distributable income.

gs containing 8,251 rental suites Canadian cities

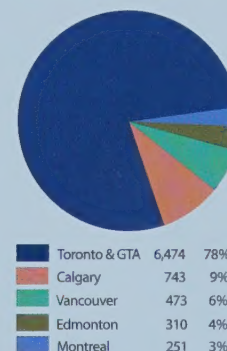
We have set the stage for increases to unitholder value in the years ahead and placed Residential Equities in the top tier of all public real estate companies in Canada. While the overall TSE Real Estate Index total return was down 15% for 1999, Residential Equities' total return was up 20.1%.

With real estate fundamentals expected to remain strong in our core markets, we believe that REITs in general, and Residential Equities in particular, will stand strong in 2000, offering a compelling value, particularly in today's volatile equity market. Our prospects for internal growth and new revenue streams make Residential Equities a very attractive investment vehicle.

Strategic vision

Our success in 1999 and our prospects for the years ahead are based on a consistent strategy for building value. It starts with an in-depth focus on high-quality properties in a select number of key markets. We continue to concentrate our efforts in locations with the fundamentals for higher performance in the short and long term, and we are particularly interested in growth markets with high barriers to entry. Residential Equities currently has 78% of its portfolio in the GTA and it is the superior locations of our properties that distinguishes us from other REITs and real estate companies.

Geographic Diversification
of Suites



Specific accomplishments in 1999 reflect this strategy. In the heart of the city of Toronto, we acquired 100 Wellesley Street East and 124 Broadway Avenue, which, together with the acquisitions of 6 John Street in Oakville, 321 Lanthier Avenue in Montreal and 9100 Bonaventure Drive S.E. in Calgary, increased Residential Equities' portfolio by 1,000 apartment units valued at \$76 million. These acquisitions complemented our existing portfolio in terms of quality, location and internal growth potential.

Left: DINO CHIESA, PRESIDENT AND CEO
Right: ROBERT D. BROWN, CHAIR

Along with our acquisition strategy, we have continued to move forward with our five-year reinvestment plan aimed at enhancing the quality of life and comfort of our residents. In its 1998 prospectus, Residential Equities disclosed that it would spend \$25 million over the first five years of operations to reverse the effects of 23 years of rent control in Ontario. In 1999, we made repairs and improvements to the appearance and comfort of our properties and suites and enhanced the structure and operations of our buildings - all with a view to improving the quality and efficiency of the building systems. We invested a total of \$7.5 million in capital expenditures plus \$6.3 million in repairs and maintenance in our existing portfolio of properties over the course of the year and expect to spend up to \$11 million in 2000. This solid reinvestment program is a key element of our plan. Our residents welcome the improvements and, more important, they are willing to accept rent increases so long as they receive fair value for their money.

All of this paves the way for exceptional built-in growth over the next three to five years. Currently, the average rent in a Residential Equities' apartment is approximately \$800 per month. Current market value for that same apartment is in excess of \$900 per month. Given our reinvestment strategy and an approximated 25% turnover rate in our buildings, we expect to see considerable increases in net operating revenues which should equate to increased cash flow per unit over the next few years. This significant internal growth also distinguishes us from other real estate companies.

Not only has the view changed, the vision has widened

With our core business in great shape, we are moving into position to launch initiatives that will break the stereotype of what a landlord can be. While we are grounded in the fundamentals of real estate, we are also a market leader with the vision and savvy to stay ahead of the technology and communications curve and provide more of

what is expected of a company in this new age. We are now actively using technology to strengthen our relationship with our residents, offering them a new level of superior service. We are providing more products, more services, more creative marketing. We are currently in the process of negotiating strategic alliances that will give our residents access to an array of home-related goods and services including Internet access, telecommunication services, health care services, shopping services and more. And we are using market research not only to identify key market segments but also to give us a detailed understanding of what our residents want. Strategically, this initiative will offer exciting new revenue streams for Residential Equities. We are a portal to cable and Internet revenue streams for a client base with disposable income and the right demographic mix. Our unitholders will benefit greatly as we develop these business lines in 2000.

We will continue to break new ground and strive to be a market leader. Frankly, it's part of our job. But having the right strategies and people in place to act on that vision is something altogether different. And it is the strategic execution of our vision that places Residential Equities amongst the country's finest real estate investment trusts.

1999 was a pivotal and successful year for us. We thank the Board of Trustees for its valuable counsel; the talented people who work at Residential Equities for their team work, focus, and commitment; our many property managers, superintendents and building staff for their unwavering dedication to client service; and our residents for putting their trust in us.

We look back with great pride and forward with great anticipation as we continue to make Residential Equities both the landlord of choice and the investment of choice.



ROBERT D. BROWN,
CHAIR



DINO CHIESA,
PRESIDENT AND CEO

Look at Residential Equities



Residential Equities is a real estate investment trust, an investment vehicle which owns a portfolio of income-producing residential apartment properties, 78% of which are in the Greater Toronto Area with the balance in major cities across Canada.

As a real estate investment trust, Residential Equities offers investors:

- stable and growing cash distributions, payable monthly from investments made in the portfolio;
- tax efficient dividends in the form of distributions to unitholders;
- liquidity: shares of publicly traded REITs are readily convertible into cash because they are traded on the Toronto Stock Exchange;
- experienced and professional management;
- geographic diversification of portfolio;
- indirect ownership in multi-family residences;
- independent governance by independent Trustees; and
- continual review by analysts, auditors and the business and financial media which provides investors with a measure of protection and more than one barometer of Residential Equities' financial stability.





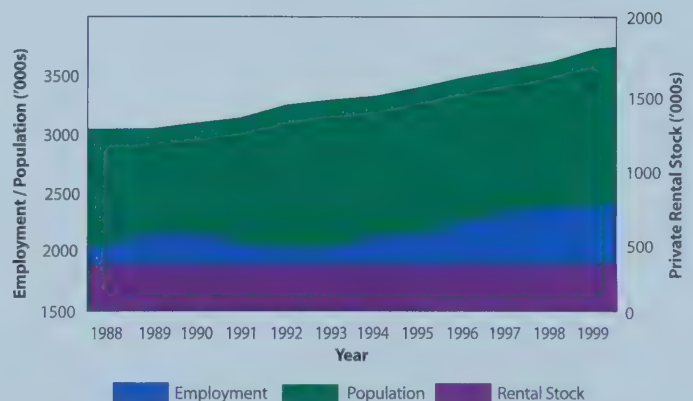
Look at the Canadian real estate market

The Canadian economy is booming

with the country in the midst of its strongest and most balanced growth streak in a decade. All sectors of the economy are healthy. We are experiencing:

- rapid employment growth
- population increases
- rising wages
- income-tax cuts at the federal and provincial levels
- growth in consumer spending
- increases in corporate profits
- record growth in exports
- rapid growth in disposable incomes - more than 5 per cent this year

Toronto Key Driving Forces



This strong economic environment bodes well for the real estate market, with high occupancy rates and rents on the rise, particularly in our core market - Toronto. Market research confirms that the GTA currently outperforms any other city in Canada in terms of desirable traits for investing in real estate. All the demographics are there: demand for downtown living is on the rise; 23 years of rent control in Ontario limited the production of competing housing, effectively increasing rents and escalating property values. GTA vacancy rates are 0.9%; and the median value per suite continues to move upwards. The market is experiencing a strong increase in the demand for apartment living and new supply is projected to be limited because of the high barriers to entry. This has led to increasing rents and a continuing reduction in available space - all good news for Residential Equities' investors.

Look at our resident profile



There is a growing trend in Canada towards high-quality, urban living

More people are looking for the convenience and lifestyle benefits of living in the heart of the city, especially those individuals that fit into the fastest growing segments of the population - young professionals, empty nesters and active seniors. Those who choose to live in neighbourhoods that are convenient to employment, shopping, dining and entertainment are renters by choice. They have higher disposable incomes and active lives. They place a high value on amenities, services and convenience when looking for a quality living experience - and they are willing to pay for it.

Residential Equities is well positioned to capitalize on this trend. We understand the needs of our residents and have the locations and amenities to service them. What's more, we are working hard to add value through our services and continue to look for creative new ways to enhance the lifestyle of our residents.





Look at our people

Experience. Reputation. Leadership.

Integrity. Vision. *Residential Equities*

These are the words that describe the management team of Residential Equities. With over four decades of relevant experience and a proven track record in the industry, we bring the best combination of experience, instinct and stability to Residential Equities.

At the advisory level, Residential Equities has assembled a strong team of entrepreneurial professionals with extensive backgrounds in the areas of finance, acquisition, and asset and real estate portfolio management, particularly in the multi-family asset class.

Underlying all management decisions made on behalf of Residential Equities is the commitment to conservative financing practices in full compliance with the Declaration of Trust and strict adherence to operating practices minimizing risk.

Left to right:

Heather Trimble, *Area Manager*

George Espinola, *VP Operations*

Judy Aprea, *Property Manager*

Maurice Kagan, *CFO*

Laura Holland, *Manager of Operations*

Jason Lester, *VP Acquisitions*







Look at our internal growth potential

Residential Equities has been growing solidly for the past two years with earnings increasing at double-digit rates, and there is more growth in our future

1999 was an excellent year in terms of our ability to increase rents across our portfolio, which is a testament to the strength of our markets. And the story continues. Our portfolio is currently leased at rates which are well below their market levels -

as much as 15% in the GTA and approximately 6% in the balance of our portfolio. With an anticipated unit turnover of approximately 25% per year over the next three to five years, opportunities for internal growth are substantial.

Adding value

In 1999 we worked hard to improve our portfolio by enhancing the appearance of our properties, redecorating lobbies and corridors, adding energy



conservation features such as new windows and offering our residents in-suite improvements.

Ongoing maintenance and repair practices have been well established to ensure the properties are always kept in superior operating condition - all with an eye to improving the quality and efficiency of the building systems and ensuring continued stable, growing cash flow to our unitholders.

We invested a total of \$7.5 million of capital repairs in our existing portfolio of properties in 1999, and expect to spend close to \$11 million in 2000. We anticipate substantial income growth through our reinvestment program which will ultimately increase the value of our portfolio in the marketplace and at the same time provide our residents with the quality living they deserve.

Look *at our* acquisition *strategy*

Residential Equities continues to focus on real estate fundamentals to enhance its prospects for continued growth

We will seek excellent buildings in prime locations, concentrate on select strong markets and pay close attention to property management and resident needs. We will enhance our position in our existing core markets and selectively enter new ones, with a goal of purchasing at least 1,000 units in 2000.

246 Davis Road, Etobicoke



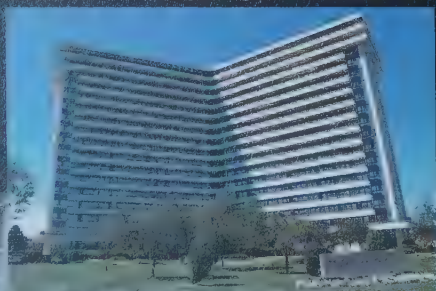
Konbridge Square, Mississauga



2515 Bathurst Street, Toronto



1055 Bloor Street East, Mississauga



33 Davisville Ave., Toronto



111 Davisville Ave., Toronto

500 Murray Ross Parkway, Toronto



Look at the future

Over the next 10 years technology will drive profound changes in consumer behaviour

and e-commerce will be the vehicle of this change - and our next big opportunity. We believe that the Internet is our gateway to new services and personalized one-to-one communication with our residents. And we are about to turn our buildings into customized web portals. Imagine having the convenience of dry cleaning and concierge services at your fingertips, shopping from the comfort of your living room, or ordering groceries, a pizza or movies with a click. Our



residents will soon have access to an array of home-related goods and services through our new e-commerce platform - a business-to-consumer strategy that will allow us to tap into some of the Internet purchasing currently taking place within our buildings. Not only will residents benefit from easy access to local listings and building services, but unitholders will see additional revenue streams as Residential Equities shares in revenues generated from any online purchasing.

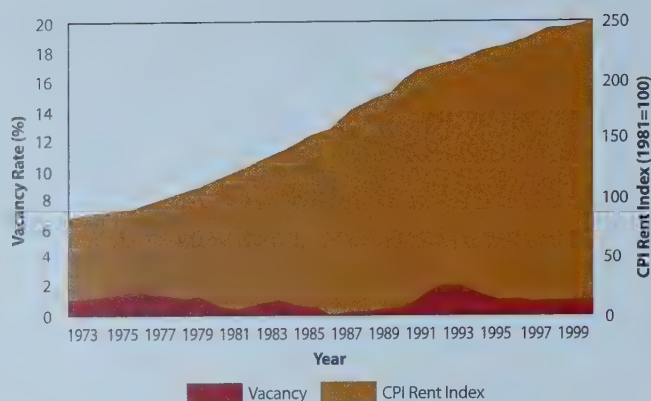


The same business model applies to the cable, telecommunications and Internet contracts currently under negotiation. Shared-revenue agreements will allow Residential Equities to benefit from ancillary income opportunities and create lucrative new revenue streams.

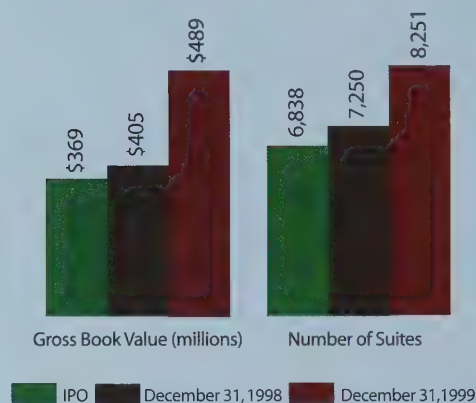
We are currently using market research to build a solid database of resident profiles that we will use in our ongoing e-business strategy. This database

will become an increasingly valuable tool, providing Residential Equities with the knowledge and opportunity to reach our residents and extend our relationship with them by providing other valued services - services that open the window to exciting future growth.

Toronto Apartment Industry

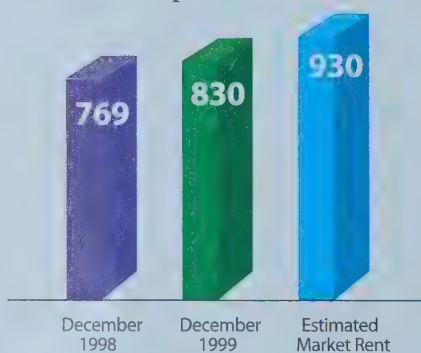


Growth Through Acquisitions



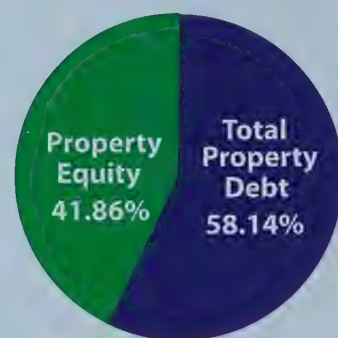
The gross book value of our portfolio grew by 20.6% from December 31, 1998 to December 31, 1999

Actual Rent vs Market Rent (per suite)



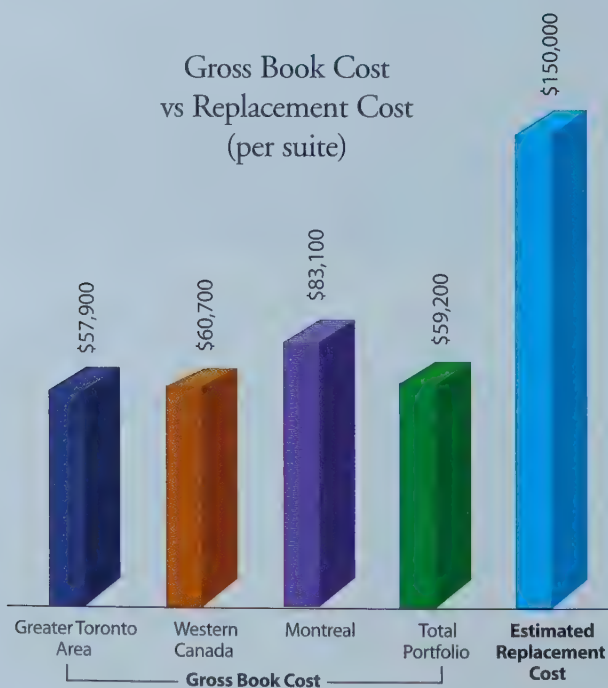
The estimated average rents in our markets will allow enhanced revenues on suite turnover

Property Debt-to-Equity Ratio



Our property debt-to-equity ratio is well below the established maximum of 60%

Gross Book Cost vs Replacement Cost (per suite)



ASSET PORTFOLIO

	YEAR BUILT	NO. OF SUITES	TURNOVER- SINCE JAN. 1, 1999	AVERAGE RENT DEC. 1999 (\$ per month)	OCCUPANCY RATE DEC. 31, 1999 %
Ontario					
20 Shallmar Boulevard, Toronto	1963	155	12	815	99.36
2515 Bathurst Street, Toronto	1955	115	14	746	99.13
1 and 23 Oriole Road, Toronto	1954	127	47	914	98.43
1004 Lawrence Avenue East, Toronto	1955	65	11	797	95.43
33 Davisville Avenue, Toronto	1966	266	59	784	99.62
111 Davisville Avenue, Toronto	1970	372	65	783	98.40
411 Duplex Avenue, Toronto	1974	455	102	828	99.19
77 Huntley Street, Toronto	1973	559	119	851	99.48
88 Isabella Street, Toronto	1968	82	30	993	99.45
500 Murray Ross Parkway, Toronto	1978	390	100	878	99.49
33 Orchardview Boulevard, Toronto	1976	326	72	850	99.82
10 San Romanoway, Toronto	1977	428	108	862	98.15
921, 923, 925 St. Clair Avenue West, Toronto	1955	71	27	616	99.18
25 Bay Mills Boulevard, Toronto	1974	281	83	950	97.87
7 and 9 Roanoke Road, Toronto	1963	226	30	753	98.29
56-88 Cassandra Boulevard, Toronto	1965	160	30	1,087	95.97
124 Broadway Avenue, Toronto	1956	86	11	699	97.67
100 Wellesley Street East, Toronto	1970	413	34	883	98.55
236 Dixon Road, Etobicoke	1963	123	17	777	100.00
1055 Bloor Street East, Mississauga	1971	323	81	919	100.00
2333 Truscott Drive, Mississauga	1974	198	69	911	100.00
2345 Truscott Drive, Mississauga	1968	72	22	847	100.00
2360 Bonner Road, Mississauga	1968	212	78	873	98.54
1425 Bodmin Road, Mississauga	1967	118	41	890	99.20
5200 Lakeshore Boulevard, Burlington	1966	72	18	894	100.00
6 John Street, Oakville	1978	75	1	1,277	100.00
100, 101, 200, 201 White Oaks Court, Whitby	1978/79	704	210	817	98.63
Ontario Sub-total		6,474	1,491		
Alberta					
6706 Elbow Drive S.W., Calgary	1971	272	125	705	97.58
924-7th Avenue S.W., Calgary	1969	154	96	717	96.77
9100 Bonaventure Drive S.E., Calgary	1982	317	17	830	92.20
8510-111th Street, Edmonton	1965	310	171	596	100.00
British Columbia					
1959-1999 Marine Drive, North Vancouver	1975	473	219	728	99.99
Quebec					
55 Laframboise, St. Laurent	1990	143	44	668	100.00
321 Lanthier Avenue, Pointe-Claire	1979	108	16	1,060	100.00
Total		8,251	2,179		

Protecting *our* Unitholders, Protecting *our* Trust.

With Residential Equities, unitholder interests are fully protected

It starts with our Board of Trustees whose mandate is to oversee the management of the Trust and ensure that its interests are aligned with those of its unitholders. In order to effectively meet its mandate, the Board of Trustees has instituted the following governance practices consistent with the guidelines of the Toronto Stock Exchange.

The majority of the Board of Trustees, including the Chair, are independent and act independently of management as required by the Declaration of Trust. The Board is elected annually and is currently composed of nine Trustees, five of whom are unrelated to the Trust.

The work of the Board is successfully accomplished through three committees:

The Investment Committee reviews all proposals by management with regard to acquisitions, dispositions, borrowings and the assumption or granting of any mortgage or other security interest in real property including any assignment of rents and other monies derived from or related to real property. The Investment Committee is comprised of seven Trustees, four of whom are independent. The members of this Committee ensure the soundness of the environmental assessments, structural integrity reports and third-party appraisals for all new acquisitions.

The Compensation & Governance Committee is charged with responsibility for (i) reviewing and making recommendations on any proposals to amend, terminate or renew the Trust's agreements, with related parties; (ii) advising and administering the Trust's compensation programs generally; and, (iii) developing and monitoring the Trust's approach to governance issues. There are three members of the Committee, all independent of the Trust.

Some of the responsibilities of the Compensation and Governance Committee are to:

- (a) review mandates of the Board's Committees;
- (b) allocate Trustees to the various Committees;
- (c) monitor the quality of the relationship between the Advisor and the Board;
- (d) identify and propose new nominees to the Board for any vacancies on the Board;
- (e) review and report to the Board on organization and succession planning;
- (f) report on governance as required by the Toronto Stock Exchange and Ontario Securities Commission.

The Audit Committee reviews all financial statements and internal controls of Residential Equities including the calculation of any fees paid or payable by the Trust to the Advisor. This Committee meets each quarter to review and approve the quarterly financial results of Residential Equities. All three members of the Committee are independent trustees.

Each Committee meets as many times as is necessary to carry out its responsibilities, but in no event will the Committees meet less than once a year. No business may be transacted by a Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee.

Meet our Board of Trustees

Robert D. Brown, FCA

Chair

Mr. Brown is the Clifford Clark Visiting Economist and provides senior policy advice to the Canadian Department of Finance and its Minister. He is also director of the Institute of Corporate Directors and a corporate consultant. He is a past chair and CEO of Price Waterhouse, now PricewaterhouseCoopers LLP, and a past chair of C.D. Howe Institute and the Canadian Institute of Chartered Accountants. Mr. Brown was also a member of the Toronto Stock Exchange Committee on Corporate Governance.

Michael Cooper

President and Chief Executive Officer

Dundee Realty Corporation

Within the real estate industry, Mr. Cooper has been active in marketing and development, merchant banking and the co-management of two real estate mutual funds. Most recently, he has led the development and ongoing operation of Dundee Realty Corporation since its creation in 1996.

John H. Daniels

Chairman

Daniels Corporation

Mr. Daniels was a founder, chairman and CEO of Cadillac Fairview Corporation. He is director of Erin Mills Development Corporation, Consolidated H.C.I. Corporation, and Anitech Enterprises Inc.

Wanda M. Dorosz

Chief Executive Officer and Managing Partner

Quorum Funding Corporation

Ms. Dorosz has more than 20 years of experience in corporate finance, primarily for entrepreneurial entities in Canada and the U.S. She is a director on the boards of several organizations including Investors Group and the University of Toronto.

Ned Goodman, CFA

Chairman, President and CEO

Dundee Bancorp Inc.

Chairman, Dundee Realty Corporation

Mr. Goodman has an established reputation as

one of Canada's most successful investment counselors. He has held a variety of directorships of public companies and prestigious organizations.

Abraham J. Green

President

Greenwin Property Management Inc.

Mr. Green is one of the three founders of the Greenwin Group. Since 1950, he has maintained an active involvement in all facets of the business with a focus on the planning, development and building design areas of the business.

Edwin F. Hawken

Corporate Director

Mr. Hawken is a corporate director, serving on the boards of various public and private corporations.

Albert J. Latner

Chairman

Greenwin Property Management Inc.

Dynacare Inc.

Shiplake Management Company

As one of the three founders of the Greenwin Group, Mr. Latner continues to oversee the business development, strategic planning and financial growth of the company.

Graham S. Rennie

President and Managing Partner

Integra Capital Management Corporation

Mr. Rennie founded Integra Capital Management, a Canadian firm providing institutional investment management services to pension plans, endowment funds, corporations and individuals.

MANAGEMENT DISCUSSION AND ANALYSIS

This management discussion and analysis comprises the following sections: background, results of operations, advisor services, distributable income, capital expenditures, unitholders' equity and future outlook.

These sections should be read jointly with the audited financial statements and related notes on pages 32 through 39 in this report.

Background

Residential Equities Real Estate Investment Trust ("Residential Equities") owns interests in 41 multi-unit residential properties containing 8,251 rental suites located in five major urban Canadian centres - 78% of which are located in the Greater Toronto Area.

Residential Equities is an unincorporated "closed end" real estate investment trust governed by the laws of the Province of Ontario and created for the benefit of unitholders pursuant to the Declaration of Trust dated January 28, 1998.

Residential Equities' stated objectives are:

- (i) to provide unitholders with stable and growing cash distributions, payable monthly from investments made in a portfolio of residential apartment properties located in Canada;
- (ii) to enhance the value of Residential Equities' existing portfolio with its experienced management team; and
- (iii) to increase unitholder value through our internal growth strategy, investment in buildings through a capital expenditure program and through selective acquisitions.

Residential Equities commenced operations as a public entity on February 16, 1998, raising gross proceeds of \$196.7 million through an initial public offering ("IPO") of investment trust units. The units were sold at \$10 per unit on an instalment receipt basis with \$6 payable as a first instalment and the balance of \$4 being fully paid on February 16, 1999.

On February 16, 1998, Residential Equities' portfolio was comprised of 6,838 apartment units and 209,000 square feet of ancillary commercial space.

Results of Operations

The financial information for the year ended December 31, 1999 is presented in accordance with Canadian generally accepted accounting principles applicable to a real estate investment trust.

A comparison of actual 1999 and 1998 operating results:

	Actual 1999 (\$000's)	Actual 1998 (\$000's)	Actual 1998 Annualized (000's)
Operating revenues	79,662	59,912	68,471
Property operating costs	39,566	29,358	33,552
Property net operating income	40,096	30,554	34,919
Percentage of operating revenues	50.33%	51.00%	51.00%
Interest expense* (net of interest earned)	14,463	10,650	12,171
Earnings before amortization and trust expenses	25,633	19,904	22,748
Percentage of operating revenues	32.2%	33.2%	33.2%

*excluding interest on instalment loan and instalment loan income

Operating revenues from income properties were \$79.7 million for the period, compared to 1998 actual (annualized) of \$68.5 million, reflecting a 16.4% increase. The higher revenues were attributed to five new acquisitions and the rising rent levels in Ontario due to improvements to the properties and the relaxation of rent control. Property net operating income increased from \$34.9 million on an annualized basis to \$40.1 million, a 14.8% increase. On a same store basis, net operating income increased by 9.47%. It is Residential Equities' policy to charge suite renovation costs under \$2,000 per apartment suite to repair and maintenance costs. During the last quarter of 1999, there were a significant number of suite renovations under the \$2,000 threshold expensed to repairs and maintenance, hence an increased level of operating costs for the quarter.

Operating Costs

Utility costs for the year were higher than expected, the result of significant increases in gas prices and hydro costs. Controllable costs such as repairs and maintenance, administration and services costs were higher than expected. This was a direct result of the relaxation of rent controls in June 1998. Residential Equities was required to renovate apartment suites in order to achieve higher rents on suite turnovers. Rents were increased to adjust for renovations and current market value, however, there was an increase in superintendent wages and additional site staff, expenditures essential to providing superior service to residents.

Ontario's new rent control legislation, the *Tenant Protection Act* ("TPA") has been in effect since June 1998 and has had the following impact: In our core properties, rents on suite turnover have increased significantly as demand continues to exceed supply. These increases in our core market of Toronto depend upon the location, building quality and level of in-suite renovations. Suite turnover rates that were expected to decline remained static at about 25%.

In Residential Equities' 1998 Management Discussion and Analysis, we reported that we should see costs stabilizing and rents increasing as a result of our capital expenditure program. Under the TPA, we are able to pass through the cost of capital repairs to our residents. However, during 1999, there was a flood of applications to the Tribunal from landlords seeking rental increases which backlogged the approval process. Applications made in December 1998 are not scheduled to be heard until January 2000. Our rental income does not account for any of these rent applications and we shall only accrue for them once the Tribunal has issued its Orders. It is likely that some of these Orders will be made in the first two quarters of 2000.

Advisor Services

Advisor fees consisted of the annual advisory fee payable to Dundee Greenwin Advisor Inc. of \$2.6 million inclusive of GST plus the incentive fee of \$0.3 million which was triggered during the year as a result of Residential Equities' earning in excess of a 10% return on property equity. Other trust expenses were \$1.2 million for the year compared to 1998 annualized costs of \$1.4 million, a \$0.2 million decrease.

Earnings

Net earnings on a fully paid basis increased from 60.2 cents per unit, annualized in 1998, to 63.7 cents in 1999, a 5.8% increase.

	Actual 1999 (\$000's)	Actual 1998 (\$000's)	Actual 1998 Annualized (\$000's)
Net earnings	13,786	11,905	13,606
Add: Interest on instalment loan	484	2,846	3,253
Deduct: Instalment interest income	(480)	(3,358)	(3,838)
Net earnings, fully paid	13,790	11,393	13,021
Net earnings per unit, fully paid	63.7¢	52.7¢	60.2¢

Interest

Mortgage interest rose from \$12.4 million annualizing 1998 actuals (actual was \$10.8 million) to \$14.6 million, a 17.7% increase, due largely to the acquisition of new properties for which we borrowed against other existing properties for the equity component of the new transactions. The interest on the instalment receipt was only for the first one and a half months of the year as the full instalment receipt was paid on February 16, 1999 when the units became fully paid. Residential Equities utilized its line of credit to close the acquisition of an apartment building at 6 John Street in Oakville. The property was subsequently refinanced and the proceeds used to partially repay the line of credit.

Overall, as at December 31, 1999, Residential Equities' weighted average interest rate was 6.43% and the weighted average term to maturity of its debt was 5.62 years compared to 6.47% and 4.67 years in 1998. During 1999, Residential Equities continued to blend and extend its mortgages to take advantage of the current lending environment. For core properties, Residential Equities consistently contracts for mortgage terms of at least 10 years secured by individual properties. We shall continue, where appropriate, to insure the majority of our debt with the Canada Mortgage and Housing Corporation ("CMHC") to obtain the most competitive terms and long-term interest rates.

Distributable Income (fully paid)

Distributable income for the year ended December 31, 1999 is calculated as follows:

	Actual 1999 (\$000s)	Actual 1998 (\$000s)	Actual 1998 Annualized (\$000s)
Net earnings	13,786	11,905	13,606
Add: Amortization (excluding deferred financing)	7,522	5,188	5,929
Deduct: Instalment interest income	(480)	(3,358)	(3,838)
Add: Interest on instalment loan	484	2,846	3,253
Distributable income, fully paid	21,312	16,581	18,950
Distributable income per unit, fully paid	98.4¢	76.6¢	87.5¢

In 1999, Residential Equities distributed 95% of its distributable income on a monthly basis, 87.51% of which was tax deferred, compared to 1998's 100% payout ratio and 74.14% tax deferral. Distributable income is calculated by adding back depreciation and amortization to net earnings and deducting the imputed instalment interest income. For the purposes of calculating the fully paid distributable income, the instalment interest expense is added back.

In 1999, Residential Equities distributed 93.7 cents per unit to its unitholders compared to 76.6 cents per unit in 1998 on a fully paid basis. This represents a payout ratio of approximately 95% compared to 100% in 1998. It is Residential Equities' objective to reduce the payout ratio to approximately 90% in 2000 and to approximately 85% in 2001, while simultaneously maintaining and increasing distributions to its unitholders. The Declaration of Trust provides that the Trustees, in their discretion, can reduce distributions to a minimum of 80% of the distributable income in each year to retain cash flow for reinvestment in order to realize the full market rent potential for our existing portfolio. Residential Equities' policy is to continually monitor the level of distributions by reference to internal and external risks and benefits.

Income-Producing Properties and Prepaid Rents

During 1999, Residential Equities acquired five properties comprising 1,000 apartment units for a total value of \$76 million. Of these acquisitions, 124 Broadway in Toronto and 6 John Street in Oakville were acquired by way of operating leases for a value of \$13.8 million. The balance of 839 units were acquired by way of fee simple purchases for a value of \$62.2 million. These acquisitions, together with our capital expenditure program, increased gross property assets from \$405 million to \$488.5 million, a 20.6% increase.

Capital Expenditures

In its 1998 IPO, Residential Equities disclosed that it would spend \$25 million over the first five years of operations. During 1999, Residential Equities invested a total of \$7.5 million in its existing portfolio of properties, compared to 1998 capital expenditures of \$8.8 million. Most of the capital expenditures will generate accretive returns because of new legislation that allows landlords to pass these costs through to tenants in the form of rent increases.

The capital expenditures were incurred for the following items:

- 1) base building costs such as restoring balconies, refurbishing elevators, energy retrofit programs, redecorating lobbies and corridors and replacing or repairing roofs;
- 2) equipment purchases such as new stoves and refrigerator replacements;
- 3) suite upgrades where units on turnover are renovated to meet 2000 standards in order to achieve rents that compete with the local condominium rental market. As discussed in our 1998 Management Discussion and Analysis, we anticipated that we would renovate over 350 apartment units in 1999. In 1999, we capitalized \$1.2 million expended on 162 of the 2,179 vacated units. Costs to renovate the balance of vacated units (2,017) were expensed to operations. It is Residential Equities' policy to expense rather than capitalize suite renovation costs below \$2,000. Renovations to vacated units enable us to capture enhanced market rents, thereby increasing the underlying value of the asset.

By the end of 2001, Residential Equities will have completed the majority of its deferred capital expenditure program, as originally discussed in its prospectus. We expect Residential Equities' distribution payout ratio to decrease to 80%-85%, which will allow us to use part of those reserves for our maintenance capital repairs program.

Other Assets

Cash and short-term investments consist mostly of amounts held in trust by mortgagees for capital repairs mandated by Canada Mortgage and Housing ("CMHC") in its undertakings to insure. Upon completion of the capital work, Residential Equities submits evidence to the lender and CMHC, following which, with the approval of CMHC, the lender releases the monies held in trust. This practice ensures that mortgage advances are used strictly for acquisitions and capital repairs.

The accounts receivable balance represents normal tenant receivables which, at the end of the year, amounted to \$724,000 compared to 1998 receivables of \$494,000. The allowance for doubtful debts has increased from \$105,000 to \$234,000 and is currently less than 0.3% of property rental income. A total of \$94,000 was expensed as bad debts.

Deferred financing fees relating to mortgage application costs, CMHC fees and legal fees are amortized over the term of each mortgage. Prepaid expenses generally relate to realty taxes that have been prepaid to the mortgagees in accordance with their lending practices.

Mortgages Payable

Residential Equities' loan-to-gross-property-book value at December 31, 1999 was 58.1% compared to 50% at December 31, 1998 (excluding the instalment receipt receivable and instalment receipt loan). Mortgages have increased from \$202.7 million to \$275.8 million, an increase of \$73.1 million. The majority of this increase related to the acquisition of new properties as set out above and the provision of funds for our capital expenditure program. The mortgages bear interest ranging from 5.6% to 7.5% per annum with a weighted average interest rate of 6.4% and a weighted average term to maturity of 5.6 years at year-end. It is management's intention to continue to take full advantage of low-cost, CMHC-insured financing and to extend its mortgages over 10- to 15-year horizons.

Mortgage Maturities as at December 31, 1999

Year	\$000s	%
2000	13,647	4.9
2001	75,446	27.4
2002	23,964	8.7
2003	7,109	2.6
2004 and thereafter	155,592	56.4
Total	275,758	100.0

Unitholders' Equity

Unitholders' equity at year-end was \$192.2 million compared to \$197.4 million in 1998. During the year, the Trust issued 126,000 units from treasury under the unit option plan for total proceeds of \$1.3 million. The Trust also made available up to 1,967,000 unit options to senior management of the Advisor, Property Manager and the Trustees of which 1,705,000 unit options are outstanding as at December 31, 1999. These options are exercisable at \$10.00 and \$11.00 per unit and vest 20% per annum from the date on which they are granted, to expire five years thereafter.

Where appropriate, Residential Equities will utilize unleveraged assets and its \$30 million line of credit for acquisitions and capital expenditures for bridging purposes. To finance significant future growth, however, Residential Equities will raise further equity in the public markets when conditions are favourable.

Risks and Uncertainties

The apartment industry in general, and Residential Equities as a public entity, are each subject to numerous risks and uncertainties inherent in their markets that can impact short-, medium- and long-term performance.

Operating Risks

Principal among the operating risks of the apartment industry are:

- 1) the age and general condition of the rental housing stock;
- 2) changes in legislation that could lower rental growth;
- 3) interest rates;
- 4) lack of rental demand; and
- 5) the risk of over supply of competing buildings.

To address the age and general condition of the buildings within Residential Equities' portfolio, we continue to invest in each property in accordance with our five-year capital expenditure program. In 1998, we spent \$8.8 million dollars, and in 1999, a total of \$7.5 million. In 2000, we will spend up to \$11 million on deferred capital repairs and upgrading energy systems.

Any changes in legislation that could affect rental growth by a new government re-establishing rent controls have been reduced for at least the next four to five years as the Ontario government is unlikely to change within that timeframe.

While there is always concern regarding interest rate fluctuations, Residential Equities has staggered its mortgage maturity dates so that there is no major exposure to higher interest rates in any given year.

We continue to see strong population growth and a 0.9% vacancy rate in our major markets. These factors, coupled with rising disposable income levels and a slight increase in interest rates that encourage renting over purchasing, eliminate the concern of a possible lack of demand for rentals in our market today.

While there is always a possibility that high-end rentals will be constructed in certain locations within downtown Toronto, there are actually very few sites available. Due to the high costs of labour and material, construction of new rental housing is generally not considered economically viable, therefore, Residential Equities does not consider this a threat to its rental portfolio.

Future Outlook

Over the last two years, Residential Equities has built a strong portfolio with solid internal growth potential. Looking forward, we have the ability to further increase our ancillary income through shared-revenue agreements for cable, Internet and telecommunications services - thereby opening new windows of opportunity for Residential Equities, its investors and its residents.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Residential Equities Real Estate Investment Trust is responsible for the preparation, integrity and fair presentation of the financial statements and all other information contained in the Annual Report.

The accompanying financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

The Trust maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality. PricewaterhouseCoopers LLP, the independent auditors, have examined the financial statements in

accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. The Auditors' Report is set forth herein.

The Board of Trustees is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board carries out this responsibility through the Audit Committee. These financial statements have been reviewed and approved by the Board of Trustees and its Audit Committee. The auditors have direct and full access to the Audit Committee.



DINO CHIESA
Chief Executive Officer



MAURICE KAGAN
Chief Financial Officer

AUDITORS' REPORT

to the unitholders of Residential Equities Real Estate Investment Trust

We have audited the balance sheets of Residential Equities Real Estate Investment Trust ("Residential Equities") as at December 31, 1999 and 1998 and the statements of unitholders' equity, income and distributable income and cash flow for the year ended December 31, 1999 and the period from inception February 16, 1998 to December 31, 1998. These financial statements are the responsibility of Residential Equities management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in

the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Residential Equities as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the year ended December 31, 1999 and the period from inception February 16, 1998 to December 31, 1998 in accordance with Canadian generally accepted accounting principles.



Toronto, Canada February 11, 2000
PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

BALANCE SHEET

AS AT DECEMBER 31, 1999 AND 1998 *(in thousands of dollars)*

ASSETS

	1999	1998
Income-producing properties <i>(note 3)</i>	\$324,543	\$261,059
Prepaid rents <i>(note 4)</i>	151,264	138,795
Cash and short-term investments <i>(note 2)</i>	7,403	1,850
Accounts receivable	1,282	1,442
Instalment receipts receivable <i>(note 5)</i>	-	66,268
Deferred financing costs <i>(note 6)</i>	3,107	676
Prepaid expenses	1,564	1,637
	\$489,163	\$471,727

LIABILITIES

Mortgages payable <i>(note 7)</i>	\$275,758	\$202,680
Loan payable <i>(note 8)</i>	8,250	-
Instalment loan payable <i>(note 9)</i>	-	61,000
Accounts payable and other liabilities	6,588	5,449
Security deposits and last month's rent	6,365	5,151

UNITHOLDERS' EQUITY

	296,961	274,280
Unitholders' equity <i>(note 10)</i>		
Issued and outstanding - 21,763,000 units (1998 - 21,637,000)	192,202	197,447
	\$489,163	\$471,727

See accompanying notes to financial statements

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES:



ROBERT D. BROWN, *Chair*



GRAHAM S. RENNIE, *Trustee*

STATEMENT OF UNITHOLDERS' EQUITY

FOR THE PERIODS ENDED DECEMBER 31, 1999 AND 1998 *(in thousands of dollars)*

	For the year ended Dec. 31, 1999	For the period Feb. 16, 1998 to Dec. 31, 1998
Unitholders' equity, beginning of period	\$ 197,447	\$ -
Net earnings for the period	13,786	11,905
Issuance of units <i>(note 10)</i>	1,264	216,370
Public offering costs	-	(13,257)
Distributions to unitholders <i>(note 11)</i>	(20,295)	(13,733)
Discount on instalment receipts <i>(note 5)</i>	-	(3,838)
Unitholders' equity, end of period	\$ 192,202	\$ 197,447

See accompanying notes to financial statements

STATEMENT OF INCOME AND DISTRIBUTABLE INCOME

FOR THE PERIODS ENDED DECEMBER 31, 1999 AND 1998 *(in thousands of dollars)*

	For the year ended Dec. 31, 1999	For the period Feb. 16, 1998 to Dec. 31, 1998
OPERATING REVENUES		
Property rental income	\$79,662	\$59,912
OPERATING EXPENSES		
Realty taxes	13,052	10,336
Operating expenses	23,737	16,919
Property management fees <i>(note 13)</i>	2,777	2,103
	39,566	29,358
PROPERTY NET OPERATING INCOME	40,096	30,554
TRUST EXPENSES		
Advisory fees <i>(note 13)</i>	2,921	2,041
Other expenses	1,170	1,210
	4,091	3,251
EARNINGS BEFORE INTEREST AND AMORTIZATION	36,005	27,303
Amortization expense	7,752	5,260
EARNINGS BEFORE INTEREST	28,253	22,043
INTEREST EXPENSE		
Mortgage interest	14,604	10,808
Interest expense	103	-
Interest on instalment loan <i>(note 9)</i>	484	2,846
Instalment interest income <i>(note 5)</i>	(480)	(3,358)
Interest income	(244)	(158)
	14,467	10,138
NET EARNINGS	13,786	11,905
Add back:		
Amortization expense (excluding amortization of deferred financing)	7,522	5,188
Instalment interest income	(480)	(3,358)
DISTRIBUTABLE INCOME <i>(note 11)</i>	\$20,828	\$13,735
WEIGHTED NUMBER OF UNITS OUTSTANDING	21,654,311	21,637,000
DISTRIBUTABLE INCOME PER INSTALMENT RECEIPT UNITS	\$0.962	\$0.635
DISTRIBUTABLE INCOME PER FULLY PAID UNITS	\$0.984	\$0.766

See accompanying notes to financial statements

STATEMENT OF CASH FLOW

FOR THE PERIODS ENDED DECEMBER 31, 1999 AND 1998 *(in thousands of dollars)*

	For the year ended Dec. 31, 1999	For the period Feb. 16, 1998 to Dec. 31, 1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Property rental income received	\$79,267	\$59,281
Interest received	244	158
Cash payments to suppliers and employees	(43,075)	(30,740)
Interest paid	(14,880)	(12,657)
CASH FLOWS FROM OPERATING ACTIVITIES	21,556	16,042
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in instalment receipts receivable	66,748	(66,748)
Income-producing property acquisitions	(66,024)	(262,403)
Prepaid rents	(16,586)	(142,507)
Financing fees	(2,652)	(745)
CASH FLOWS USED IN INVESTING ACTIVITIES	(18,514)	(472,403)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits from residents	1,214	5,151
Increase in loan payable	8,250	-
(Decrease) increase in instalment loan payable	(61,000)	61,000
Proceeds of new mortgage financing	92,947	212,875
Mortgage principal repayments	(19,869)	(10,195)
Proceeds from issuance of units	1,264	216,370
Public offering costs	-	(13,257)
Distributions to unitholders	(20,295)	(13,733)
CASH FLOWS FROM FINANCING ACTIVITIES	2,511	458,211
NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS	5,553	1,850
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF PERIOD	1,850	-
CASH AND SHORT-TERM INVESTMENTS, END OF PERIOD	\$ 7,403	\$ 1,850

See accompanying notes to financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999 (*in thousands of dollars except where indicated*)

1. Organization of Trust

Residential Equities Real Estate Investment Trust ("Residential Equities") is a "closed-end" real estate investment trust created for the benefit of the unitholders pursuant to the Declaration of Trust dated January 28, 1998, as amended. On February 16, 1998, Residential Equities completed an initial public offering of units and acquired 33 residential buildings, comprised of 6,838 residential units and 209,042 square feet of commercial space across Canada. At December 31, 1999, Residential Equities' portfolio consisted of 41 buildings, comprising 8,251 units and 227,042 square feet of commercial space.

2. Summary of Significant Accounting Policies

Basis of Presentation

Residential Equities' financial statements are prepared in conformity with Canadian generally accepted accounting principles. Residential Equities' accounting policies and standards of financial disclosure are substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies, of which Residential Equities is a member.

Income-Producing Properties

Income-producing properties are stated at the lower of cost less accumulated amortization and net recoverable amount. Cost of the properties includes all amounts relating to the acquisition and improvement of the properties. Costs associated with upgrading the existing facilities, other than ordinary repairs and maintenance, are capitalized as project improvements. The net recoverable amount represents the undiscounted, estimated future net cash flow expected to be received from the ongoing use of the property plus its residual worth, and is intended to determine recovery of an investment and is not an expression of a property's fair market value.

Amortization of the buildings is recorded using a 5% sinking fund basis to fully amortize the cost of buildings over forty years. Capital improvements are amortized on a straight-line basis over their estimated useful lives ranging from five to forty years. Equipment is amortized on a straight-line basis over fifteen years.

Prepaid Rents

Rents prepaid on acquisition of leasehold interests are deferred and amortized on a straight-line basis over the thirty-five year term of the leases. Prepaid rents include all costs relating to the rental of the properties plus all costs associated with upgrading the existing facilities, other than ordinary repairs and maintenance. These costs are amortized over their estimated useful lives ranging from five to thirty-five years.

Cash and Short-Term Investments

Included in cash on the balance sheet are funds held in trust in the amount of \$6,736 (1998 - \$600) to be used for capital expenditures. Short-term investments have maturities of three months or less.

Deferred Financing Costs

Financing costs are deferred and amortized on a straight-line basis over the terms of the related financing.

Deferred Leasing Costs

Leasing costs such as commissions, free rent and other tenant inducements, when incurred, are capitalized and amortized on a straight-line basis over the term of the related leases.

Unit Option Plan

Residential Equities has a unit option plan, which is described in Note 10. No compensation expense is recognized for this plan when units or unit options are issued to employees. Any consideration paid by employees on exercise of unit options or purchase of units is credited to unitholders' equity. If units or unit options are repurchased from employees, the excess consideration paid over the carrying amount of the units or unit options cancelled is charged to unitholders' equity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

Financial Instruments

Residential Equities' instalment loan payable, instalment receipts receivable, loan payable, cash and short-term investments and accounts payable and other liabilities are carried at cost which approximates their fair value due to their short-term nature.

3. Income-Producing Properties

	1999		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 40,165	\$ -	\$ 40,165
Buildings	281,196	3,731	277,465
Capital improvements	5,467	502	4,965
Suite upgrades	656	124	532
Equipment	1,484	122	1,362
Leasing costs	51	12	39
Work-in-progress	15	-	15
	<u>\$329,034</u>	<u>\$4,491</u>	<u>\$324,543</u>

	1998		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 30,838	\$ -	\$ 30,838
Buildings	228,344	1,588	226,756
Capital improvements	2,314	120	2,194
Equipment	1,265	24	1,241
Leasing costs	33	3	30
	<u>\$262,794</u>	<u>\$1,735</u>	<u>\$261,059</u>

4. Prepaid Rents

	1999		
	Cost	Accumulated Amortization	Net Book Value
Leasehold interests	\$ 150,852	\$ 7,346	\$143,506
Leasehold improvements	6,693	679	6,014
Suite upgrades	484	94	390
Equipment	1,420	112	1,308
Work-in-progress	46	-	46
	<u>\$ 159,495</u>	<u>\$8,231</u>	<u>\$ 151,264</u>

	1998		
	Cost	Accumulated Amortization	Net Book Value
Leasehold interests	\$ 137,060	\$3,301	\$ 133,759
Leasehold improvements	3,905	132	3,773
Equipment	1,286	23	1,263
	<u>\$ 142,251</u>	<u>\$3,456</u>	<u>\$ 138,795</u>

5. Instalment Receipts Receivable

Under the terms of the Initial Public Offering (see note 10) on February 16, 1999, unitholders paid the remaining \$4.00 per unit of instalment receipts without interest for total net proceeds of \$66,748. At December 31, 1998, the instalment receipts receivable had been discounted using a rate of 5.75% per annum and the resulting imputed interest income of \$3,838 has been deducted from unitholders' equity in 1998. During the period, amortized imputed interest income of \$480 (1998 - \$3,358) has been recognized.

6. Deferred Financing Costs

	1999		
	Cost	Accumulated Amortization	Net Book Value
Financing fees	\$3,397	\$290	\$3,107
	<u>\$3,397</u>	<u>\$290</u>	<u>\$3,107</u>

	1998		
	Cost	Accumulated Amortization	Net Book Value
Financing fees	\$745	\$69	\$676
	<u>\$745</u>	<u>\$69</u>	<u>\$676</u>

7. Mortgages Payable

Mortgages payable bear interest at rates ranging from 5.60% to 7.53% (weighted average rate of 6.43% as at December 31, 1999; 6.47% as at December 31, 1998) and mature between 2000 and 2009. First and second charges on Residential Equities' interests in real property investments have been pledged as collateral security for the mortgages.

Minimum future principal payments are as follows:

2000	\$ 13,647
2001	75,446
2002	23,964
2003	7,109
2004 and thereafter	155,592
	\$275,758

8. Loan Payable

Residential Equities has a revolving line of credit in the amount of approximately \$30,000 for acquisition and operating purposes, generally bearing interest at prime rate plus 0.25% with a maturity date of January 31, 2000 which was extended to January 31, 2001 subsequent to year-end. Second mortgages on four properties and a third mortgage on one property have been pledged as collateral security for the line of credit. The principal amount and any unpaid interest are payable on the maturity date.

9. Instalment Loan Payable

On February 16, 1999, unitholders paid the remaining \$4.00 per unit of instalment receipts for total net proceeds of \$66,748, of which \$61,000 was utilized to repay in full the instalment receipt loan with the Bank of Nova Scotia.

The instalment loan bore interest at 6.13% per annum on the fixed rate advance of \$49,000 and prime rate plus 1/4 of 1% per annum on the balance. Instalment receipts receivable were pledged as collateral security for the loan.

10. Units Issued and Outstanding

The number of units issued and outstanding is as follows:

		1999	1998
	Units	\$	\$
Units from Public Offering closed February 16, 1998	19,670,000	184,648	184,648
Units from Over-Allotment closed March 17, 1998	1,967,000	18,465	18,465
Options exercised	126,000	1,264	-
	21,763,000	204,377	203,113

During 1998, Residential Equities issued 21,637,000 units for net proceeds of \$203,113 (net of issue costs of \$13,257) pursuant to the Prospectus dated January 28, 1998, including 1,967,000 units under the Over-Allotment Option. The units were sold for \$10 per unit. Of the total number of units issued, 16,687,000 units were sold on an instalment basis with an initial instalment of \$6 per unit and a final instalment of \$4 per unit payable on February 16, 1999.

10. Units Issued and Outstanding (continued)

The initial instalment of \$6.00 per unit was received on closing and the final instalment of \$4.00 per unit was received on February 16, 1999.

Under the Unit Option Plan ("Plan"), Residential Equities may grant options to its Trustees, directors, officers and employees, the general partner of the Advisor and the general partner of the Property Manager for up to 1,967,000 units at offering prices of \$10.00 and \$11.00 per unit. Under the Plan, the exercise price of each option equals the market price of Residential Equities' units on the last trading date preceding the date of the grant and each option's maximum term is five years. 20% of the optioned units are exercisable during the year in which they are granted, and the balance of the optioned units is exercisable as to 25% in each of the following four years.

A summary of Residential Equities' unit option activity for the periods ended December 31, 1999 and 1998 is presented below:

	1999		1998	
	No. of Options	Weighted-Average Exercise Price	No. of Options	Weighted-Average Exercise Price
Options outstanding, beginning of period	1,610,000	\$10.00	-	-
Options granted	767,000	10.37	1,610,000	\$10.00
Options exercised	(126,000)	10.03	-	-
Options cancelled	(281,000)	10.06	-	-
Options expired	(265,000)	10.00	-	-
Options outstanding, end of period	1,705,000	\$10.16	1,610,000	\$10.00
Options exercisable, end of period	565,600	\$10.09	322,000	\$10.00

The following table summarizes information on unit options outstanding at December 31, 1999:

Exercise Prices	Options Outstanding			Options Exercisable	
	Number at Dec. 31/99	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number at Dec. 31/99	Weighted-Average Exercise Price
	1,438,000	3.36	\$10.00	512,200	\$10.00
	267,000	4.47	11.00	53,400	\$11.00
\$10 and \$11	1,705,000	3.54	\$10.16	565,600	\$10.09

11. Distributable Income

Residential Equities makes distributions to unitholders on a monthly basis on or about the 15th day of each month other than January, and on December 31 in each calendar year. The Declaration of Trust provides that Residential Equities will distribute to unitholders on an annual basis no less than the greater of (a) the income of Residential Equities calculated in accordance with the *Income Tax Act*, and (b) 80% of the income of Residential Equities calculated in accordance with generally accepted accounting principles excluding gains and losses from the disposition of real property, imputed interest income on the instalment loan and before any deduction for amortization of income-producing properties and prepaid rents, such amount which is available to be paid by Residential Equities in any year being the “Distributable Income”.

It is the current practice of Residential Equities to distribute approximately 95% of yearly Distributable Income (1998 - 100%) with a view to reducing the ratio to approximately 90% in 2000.

For the year ended December 31, 1999, Residential Equities distributed \$20,295 to its unitholders (1998 - \$13,733), comprised as follows:

	1999	1998
Taxable to unitholders as other income in 1999	12.49%	25.86%
Tax deferral to be deducted from adjusted cost base of individual unitholders	87.51%	74.14%
	100.00%	100.00%

12. Income Taxes

Residential Equities is taxed as a Mutual Fund Trust for income tax purposes. Pursuant to the Declaration of Trust, Residential Equities is required to distribute its income for income tax purposes each year to its unitholders to such an extent that it will not be liable for income tax under Part I of the *Income Tax Act*. Therefore, no provision for income taxes is required on income earned by Residential Equities.

For the year ended December 31, 1999, deductions claimed by Residential Equities for income tax purposes exceeded the corresponding amounts recorded in its financial statements by \$11,252 (1998 - \$8,352) and the net value of the Trust's assets for income tax purposes at December 31, 1999 is \$15,779 (1998 - \$6,035) less than the amounts recorded in the balance sheet at that date.

13. Related Party Transactions

Residential Equities has entered into an advisory agreement (the “agreement”) with Dundee Greenwin Advisor Limited Partnership (formerly LT Greenwin Advisor Limited Partnership) (the “Advisor”) whereby the Advisor provides investment and financial advice to Residential Equities, administers the day-to-day operations and performs various real estate activities related to the operations of Residential Equities and the properties held in its portfolio. The initial term of the agreement is five years which will be automatically renewed for successive five-year terms unless terminated by a majority of Independent Trustees and 66-2/3% of the unitholders. For providing these services, the Advisor is entitled to compensation calculated as follows:

- (a) an annual advisory fee, payable monthly, equal to 0.65% of the Adjusted Book Value of the first \$150 million of Residential Equities' assets and 0.50% of the Adjusted Book Value of Residential Equities' assets in excess of \$150 million;
- (b) an investment fee of 0.95% of the cost of new investment by Residential Equities;

13. Related Party Transactions (continued)

- (c) a disposition fee of 0.25% of the sale or assignment proceeds of disposition received by Residential Equities;
- (d) an incentive fee of 15% of the amount by which the aggregate net property cash flow, after deduction of the annual advisory fee, generated by Residential Equities' real property portfolio in any year exceeds 10% of the aggregate equity for all property of Residential Equities, plus 15% of the net proceeds generated from the sale of a property in excess of the net sale proceeds required to generate an internal rate of return to Residential Equities of 10% calculated from annual net property cash flow, after deduction of the annual advisory fee, on the average aggregate equity invested in that property.

The following is a summary of fees paid by Residential Equities to the Advisor:

	1999	1998
Advisory fees	\$2,656	\$2,041
Incentive fees	265	-
	2,921	2,041
Investment fees	753	244
	\$3,674	\$2,285

Residential Equities has entered into a property management agreement (the "management agreement") with LT Greenwin Property Management Limited Partnership (the "Property Manager") to provide property management services. The initial term is five years and will be automatically renewed for successive one-year terms unless terminated in accordance with the management agreement.

During the initial five-year term, annual property management fees are payable to the Property Manager at the rate of approximately 3.5% of the gross rental revenues from the properties managed by the Property Manager on behalf of Residential Equities. Residential Equities paid property management fees of \$2,777 during the year (1998 - \$2,103) pursuant to this management agreement.

In addition, a supervision fee is payable to the Property Manager for construction management services, at rates of approximately 4% to 5% of construction costs. Residential Equities capitalized \$532 of supervision fees and \$753 of investment fees (1998 - \$244) during the period.

The Property Manager and the Advisor are owned 50% by Greenwin Property Management Inc. ("Greenwin") and 50% by Dundee Realty Corporation. Two Trustees of Residential Equities exercise control of Greenwin.

14. Risk Management and Fair Value

Residential Equities is exposed to financial risk that arises from the fluctuation in interest rates and in the credit quality of its residents. Residential Equities manages these risks as follows:

Interest rate risk

Residential Equities is exposed to interest rate risk related to its mortgages and loan payable. Residential Equities minimizes this risk by ensuring the debt maturities are spread out over a number of years and that its portfolio contains debt with primarily fixed interest rates. The Declaration of Trust prohibits the total indebtedness of Residential Equities, on a permanent basis, to be more than 60% of the gross book value of the assets of Residential Equities, unless a majority of the Trustees, in their discretion, determine that the maximum amount of indebtedness shall be based on the appraised value of the real properties of Residential Equities.

Credit risk

Credit risk arises from the possibility that residents may experience financial difficulty and be unable to fulfill their lease commitments. Residential Equities mitigates this risk of credit loss by ensuring that its mix of residents is diversified and by limiting its exposure to any one resident. Thorough credit assessments are conducted in respect of all new leasing.

Fair Value

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The fair values of mortgages payable are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts Residential Equities might pay or receive in actual market transactions. Potential transaction costs have also not been considered in estimating fair value.

The fair value of mortgages payable as at December 31, 1999 is \$269,708 (1998 - \$203,155).

15. Commitments

Land leases

Three of the properties have ground leases with various expiry dates between March 31, 2045 and July 31, 2070. Generally, each ground lease provides for a nominal annual rental and an additional rental calculated from the results of property operations. Minimum annual rentals for the next five years under these leases, exclusive of participation payments, are as follows:

2000	\$527
2001	\$527*
2002	\$527
2003	\$527
2004	\$527*

*Rental payments under two land leases will be renegotiated in 2001 and 2004 under the terms of the respective land lease.

16. Segmented Disclosure

Substantially all of Residential Equities' assets are in, and its revenue derived from, the Canadian residential real estate industry segment.

17. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation

18. Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to suppliers or other third parties, have been fully resolved.

Trustees and Officers of the Trust

Trustees

Robert D. Brown, Chair ⁽¹⁾⁽²⁾⁽³⁾
Michael Cooper ⁽¹⁾
John H. Daniels ⁽¹⁾⁽²⁾
Wanda Dorosz ⁽³⁾
Ned Goodman ⁽¹⁾
Abraham J. Green
Edwin F. Hawken ⁽¹⁾⁽³⁾
Albert J. Latner ⁽¹⁾
Graham S. Rennie ⁽¹⁾⁽²⁾

Officers of the Trust

Dino Chiesa
Chief Executive Officer and President

Maurice Kagan
Chief Financial Officer and Secretary

Officers and Managers of Dundee Greenwin Advisor Inc.

Dino Chiesa
Chief Executive Officer and President

Maurice Kagan
Chief Financial Officer

Jason Lester
Vice-President, Acquisitions

Marcia Franklin
Controller

Laura Holland
Manager of Operations

Robin Lawder
Debt Administration

Auditors

PricewaterhouseCoopers LLP

Lawyers

Goodman Phillips & Vineberg
Blaney McMurtry LLP
⁽¹⁾ Investment Committee
⁽²⁾ Audit Committee
⁽³⁾ Compensation and Governance Committee

Annual General Meeting of Unitholders

All unitholders are invited to attend the annual general meeting of Residential Equities: Thursday, June 15, 2000 at 10:00 a.m. Toronto Stock Exchange Conference Centre and Stock Market Place, 130 King St. West, Toronto

Trust Headquarters

390 Bay Street, Suite 800
Toronto, Ontario M5H 2Y2
Telephone: 416 869-3003
Facsimile: 416 869-3004
<http://www.resreit.com>
e-mail resreit@resreit.com

Transfer Agent

The Trust Company of Bank of Montreal
129 St. Jacques
Level B North
Montreal Quebec H2Y 1L6
Telephone: (514) 877-8198
Facsimile: (514) 877-9676

Unit Listing

The Toronto Stock Exchange
Stock Trading Symbol: REE.UN

Distributions*

	Cents per Unit	
	1999	1998
First Quarter	21.70	7.82
Second Quarter	22.50	17.51
Third Quarter	24.75	18.67
Fourth Quarter	24.75	19.47
Total	93.70	63.47

* Each month's distribution was paid on the 15th day of the month following with the exception of December 1999's distribution which was paid on December 31.



*Quality living.
Quality investment.*



RESIDENTIAL EQUITIES

Quality living. Quality investment.